Julian Hodge Bank Limited

Directors’ report and financial statements

31 October 2010

Registered number 743437

Officers and professional advisers

Directors	John Mitchell	O.B.E., M.V.O., F.C.I.B.	Chairman
	Jonathan Hodge		Deputy Chairman
	David Austin	LL.B., A.C.A.	Managing Director
	David James	LL.B., A.C.A.	Finance Director
	Keith James	O.B.E., M.A.	
	Hywel Jones	C.B.E., F.C.A., BSc.	
	Adrian Piper	B.A., M.Sc., M.C.I.P.D., M.C.I.M	
Company Secretary	Rhian Yates		
Registered Office	31 Windsor Place Cardiff CF10 3UR		
Auditors	KPMG Audit Plc Cardiff		
Principal bankers	Lloyds TSB Bank Plc London Barclays Bank Plc Cardiff		
Economic adviser	Professor Patrick Minford Cardiff Business School		

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Chairman's statement

I am pleased to present the Julian Hodge Bank results for the year ended 31st October 2010.

The Bank made a pre-tax profit of £2.1 million *(2009: £1.2 million)* which, in the current environment, is considered to be a satisfactory performance.

Highlights

- Tier 1 asset ratio of 21.2%.
- Customer deposits rose from £610.5 million to £696.2 million – an increase of 14%.
- Liquid assets increased substantially from £109.7 million to £230.9 million.
- Total assets increased by 12% to £825 million.

Economic Environment

The economic environment for the Bank remains extremely challenging. Global financial markets generally and European markets in particular have been unnerved by the financial crises enveloping Ireland and Greece and are looking for the next casualty. Uncertainty, which is the main threat to financial stability, remains and there is still a suspicion that not all the bad news has yet emerged. Until the issue surrounding the Eurozone economies is resolved, it will inevitably have an adverse impact on the U.K. financial system which cannot operate in isolation.

Within the U.K., the major concern is how the coalition government's comprehensive spending review will impact on the nascent economic recovery and whether the medicine prescribed to cure the deficit is being applied too soon. On the other hand, in some quarters, inflation is seen as a problem, having been in excess of its 2% target for over a year and the Bank of England admitting that it is likely to stay above target until 2012. However, it seems that the Monetary Policy Committee is determined to keep base rate low, even though it has become detached from market rates generally with banks' cost of funds no longer related to base rate to any significant degree.

Financial Performance

Although this year's profit represents a welcome improvement on last year, the result does reflect the challenging trading environment within which the Bank has had to conduct business during 2010. The limited availability of new business at adequate margins has depressed fee income. Furthermore, the Bank's prudent provisioning policy has had an adverse effect on our results but this has been offset by the profit derived from sales of equity release mortgages and other assets.

In order to recognise the lack of profitable new business opportunities the Bank addressed its cost base during the year. The benefits of the efficiency savings will not, however, be felt until 2011.

Five Year Summary

	2010	2009	2008	2007	2006
	£m	£m	£m	£m	£m
Profit before tax	**2.1**	**1.2**	**(0.9)**	**7.1**	**6.5**
Total assets*	**825.3**	**738.0**	**629.2**	**465.9**	**441.8**
Loans and advances to customers*	**398.4**	**470.2**	**419.3**	**366.1**	**305.7**
Customer deposits	**696.2**	**610.5**	**503.4**	**317.5**	**316.5**
Shareholder's funds	**124.1**	**122.1**	**124.2**	**126.5**	**123.0**

*****The figures for 2006 have been restated to remove the assets relating to the businesses disposed of during that year.

Chairman's statement (*continued*)

Commercial Lending

Our Commercial Lending division has endured another difficult and testing year. The absence of quality new business in our market place has meant that the opportunity to generate fee income has been limited. In addition, the Bank's customers have suffered from weak occupier/tenant demand which has meant that asset realisations/lets on reasonable terms have been hard to come by. Whilst, on the face of it, yields within the sectors favoured by the Bank's customers have stabilised over the year, the reality is that low transaction volumes have tended to undermine this apparent trend.

Acknowledging the issues faced by our customers and recognising that there is unlikely to be any material improvement in the short-term, the Bank has taken the prudent approach of increasing the level of provisions which it is holding against poor performing customer accounts. Problems within the commercial property sector have persisted for longer than we had anticipated and it is clear that there are issues to be resolved before a recovery can be established. However, I believe that the Board has taken appropriate action to enable the Bank to benefit from the upturn when it comes.

Hodge Lifetime

Hodge Lifetime is the umbrella brand for the Group's equity release activities which are conducted through the Bank and its subsidiary, Hodge Life Assurance Company Limited (Hodge Life). Under the Hodge Lifetime brand, cash lump-sum equity release products are provided by the Bank. As far as Hodge Life is concerned it specialises in pension and purchased life annuities and annuity-based equity release products. Hodge Life is regulated separately from the Bank but also by the Financial Services Authority.

The Bank has in recent years embarked on a strategy of reducing its balance sheet exposure to equity release assets, largely driven by the adverse effect of new capital and liquidity requirements which tend to render such products less viable. Our approach is clearly being mirrored in other financial institutions to the extent that there are currently fewer banks and building societies undertaking equity release business in any material way.

The provision of equity release products is now largely the province of life assurance companies which have the long-term liabilities to match these assets. As noted last year, the Bank is in the fortunate position that Hodge Life continues to be an investor in this asset class. Indeed, during the year, Hodge Life acquired £15 million of lifetime mortgage from the Bank. The Bank also concluded a sale of £60 million of lifetime mortgages to a third party. Significant progress has, therefore, been made in delivering the Bank's strategy for equity release assets and it is anticipated that this will continue during the forthcoming financial year.

One of the consequences of the Bank reducing its equity release exposure has been the need to match human resources with anticipated business volumes. Sadly, this resulted in a number of redundancies amongst Hodge Lifetime personnel and support functions. We now believe, however, that we have an organisational structure appropriate to our strategic aspirations.

As a Group, we remain committed to equity release business having been at the forefront of this market for over 40 years. The demographics for this business continue to be favourable as mortality rates improve, the need for long-term care becomes more prevalent and the inadequacy of individual pension provision hits home. However, it is clear that capital and liquidity constraints will prevent substantial volumes of such assets being retained on the Bank's balance sheet. Accordingly, our Hodge Life subsidiary continues to develop its pension annuity business, such that it is able to acquire suitable equity release assets originated through the Bank. As at 31st October 2010 we had £440 million of equity release mortgage assets under management including £219 million for other financial institutions.

Chairman's statement (*continued*)

Treasury and Funding

Since 1st October 2010, the Bank has been subject to the new liquidity regime introduced by the Financial Services Authority. Ultimately, the Bank will be required to hold its liquid assets buffer primarily in the form of gilts, although the FSA has implemented a flight path to allow banks time to acquire the appropriate assets. In accordance with the flight path, the Bank has commenced the acquisition of gilts and established a portfolio in excess of £42 million as at 31st October 2010.

The exact value of the Bank's required holding of liquid assets has yet to be determined by the FSA; however, the Bank has deemed it appropriate to adopt a conservative approach to liquidity by creating a portfolio of liquid assets substantially in excess of the total likely to be required.

The retail deposit market has remained extremely competitive during the year, driven by the need of some financial institutions to replace maturing wholesale funding, combined with the impact of the FSA's new liquidity rules. Nevertheless, the Bank has been extremely successful in increasing its retail deposit base despite the level of competition. Our deposit balances rose from £611 million to £696 million, an increase of 14% over the year. It is appropriate here to thank those depositors who remained loyal to the Bank and to welcome the many new customers who have been attracted to join us.

As a financial institution, we remain committed to treating our customers fairly and putting the security of our depositors at the forefront of everything we do. Our aim is to continue to offer straightforward deposit products that are not only easy to understand but also do not prefer new as against existing customers.

Our People

I am happy to report that, in June 2010, the Bank appointed Adrian Piper as a non-executive director. Adrian had a long and distinguished career with the Bank of England, latterly as its Agent for Wales before his retirement in 2009. He has a lifetime's experience in banking at a senior level, which, combined with his knowledge of the Welsh business community and economy, will serve the Bank extremely well over the coming years.

On behalf of the Board it is my pleasurable duty to thank all employees for their continued endeavour, commitment and loyalty not only just for 2010 but also for the past three years which have all been extremely difficult. During extraordinarily trying times our people have demonstrated energy and enthusiasm - their contribution to the Bank's performance cannot be underestimated.

The Future

At the moment it is difficult to be too positive with respect to the medium-term outlook for the Bank's two key markets, housing and commercial property. Whilst the government has announced elements of its comprehensive spending review and the savings it anticipates deriving there from, the real pain has yet to be felt. It may be that the actual outcome will be less severe than some fear but, sometimes, fear can drive behaviour. It is most likely that businesses and individuals will exhibit caution until they have a clearer idea of the impact of the proposed cuts.

The Bank has operated in the housing and commercial property markets for many years and has built up a substantial knowledge base which has protected it from the worst excesses of the past three years. Coupled with this we have substantial liquidity and capital strength to ensure that our depositors are protected to the fullest extent.

As and when our chosen markets recover, we believe we are well placed to take advantage of the opportunities that will inevitably arise.

John Mitchell
Chairman
23 December 2010

Directors' report

The directors present their report together with the audited financial statements for the year ended 31 October 2010.

Principal activities

The Bank is principally engaged in the business of banking and equity release. Details of the principal subsidiary and its activities are set out in note 12 to the accounts.

The Bank is an Authorised Institution under the Financial Services and Markets Act 2000.

Corporate strategy

The Board has adopted a prudent strategic plan with the long term aim of achieving stable returns and modest capital growth in accordance with the requirements of its Shareholder. At the heart of the Bank's philosophy is a wish to protect its capital base for the benefit of its depositors and Shareholder by conducting business in those areas where it has the greatest expertise and experience and best understands the risks which it is taking.

A rolling five-year strategy is approved by the Board annually, complemented by a detailed business plan for the forthcoming financial year. The Board sets aside specific time during the year to review its strategy and to gauge progress towards its achievement. The current strategy is based on a continuing involvement in (a) commercial property, primarily through the Bank's commercial lending business and (b) residential property through its equity release activities, both of which it believes will enable it to achieve its strategic objectives.

Business review and future developments

A review of business and future developments is included in the Chairman's statement on pages 1 to 3.

Results and dividends

The profit for the year after taxation amounted to £1,341,000 *(2009: profit of £718,000).* No dividend was paid during the year *(2009: £nil)* leaving a surplus for the year of £1,341,000 (*2009: surplus of £718,000)* to be taken to reserves.

Suppliers' terms of payment

The Bank recognises the importance of maintaining good relationships with its suppliers and is committed to paying all invoices within 30 days of invoice date, or, otherwise in accordance with agreed terms. At the year end, the Bank had an average of 13 days purchases outstanding in trade creditors *(2009: 14 days)*.

Employees

The Bank has an equal opportunities employment policy, and it is the Board's policy to employ disabled persons whenever suitable vacancies arise and to provide for such employees the appropriate level of training and career progression within the Bank.

The directors recognise the importance of communication with employees and they make it their policy to be accessible to them.

Directors' report *(continued)*

Directors and their interests

The directors who held office during the year are listed below:

John Mitchell*	- Chairman	
Jonathan Hodge*	- Deputy Chairman	
David Austin	- Managing Director	
David James	- Finance Director	
Keith James*†		
Hywel Jones*†		
Adrian Piper*†		Appointed 24th June 2010

* Non-executive
† Independent

David Austin, Keith James and Adrian Piper retire by rotation or for statutory reasons and, being eligible, offer themselves for re-election.

No contract was entered into by the Bank in which a director had a material interest.

Jonathan Hodge's interests in the shares of Bank undertakings are shown in the Directors' Report of the ultimate UK parent undertaking, The Carlyle Trust Limited.

None of the other directors held any interest in the shares of Group undertakings.

Political contributions

The Bank made no political contributions during the year.

Corporate governance

This statement explains the extent to which the Bank has applied the principles of good governance contained in The UK Corporate Governance Code for the year ended 31 October 2010.

The Board of the Bank comprises two executive and five non-executive directors. The roles of Chairman and senior executive are separate to ensure that neither can exercise unfettered powers of decision-making on matters of material importance to the Bank.

The Board has sought to ensure that directors are properly briefed on issues arising at Board meetings by:

- distributing papers sufficiently in advance of meetings;
- considering the adequacy of the information provided before making decisions; and
- deferring decisions when directors have concerns about the quality of information.

The Board is ultimately responsible for the Bank's system of internal control and for reviewing its effectiveness. The system of control is designed to manage rather than eliminate risks which are inherent in the Bank's business and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Bank's system of internal financial control includes appropriate levels of authorisation, segregation of duties and limits for each aspect of the business. There are established procedures and information systems for regular budgeting and reporting of financial information. Financial reports are presented to the Board monthly detailing the results and other performance data.

There is a well-established internal audit function within the Bank that is provided by PwC. on an outsourced basis. Its role is primarily to review the effectiveness of controls and procedures established to manage risk. An audit programme is agreed annually in advance with the audit committee and the head of internal audit attends each meeting of the committee to present a summary of audit reports completed during the period and to provide any explanations required by the committee.

The audit committee has reviewed the effectiveness of the Bank's system of internal financial control during the year.

Directors' report *(continued)*

Governance framework

The following is a summary of the framework for corporate governance adopted by the Bank.

The Board

The Board has ultimate responsibility for the proper stewardship of the Bank in all its undertakings. It meets regularly throughout the year to discharge its responsibilities for all important aspects of the Bank's affairs, including monitoring performance, considering major strategic issues, approving budgets and business plans and reporting to the shareholder.

A Board control manual has been adopted which describes the high-level policy and decision-making arrangements within the Bank. The manual includes a schedule of matters reserved to the Board together with those items delegated to directors and Board and executive committees.

Board Committees

The Board has established the following standing committees:

- Audit committee: Hywel Jones (Chairman), John Mitchell, Keith James, Jonathan Hodge and Adrian Piper.

  All members of the audit committee are non-executive. Executive members of the Board and other senior executives attend as required by the Chairman.

  The function of the audit committee is to review the work of the internal audit function, to consider the adequacy of internal control systems, to review the relationship with the external auditors, to review the statutory accounts and to consider compliance issues.

  The committee meets at least four times a year.

- Remuneration and nomination committee: Keith James (Chairman), John Mitchell, Hywel Jones, Jonathan Hodge and Adrian Piper.

  The role of this committee is twofold:

  1. To consider remuneration policy and specifically to determine the remuneration and other terms of service of executive directors and senior managers. The executive directors decide fees payable to non-executive directors.

  2. To recommend the appointment of directors to the Board and Board committees and to ensure that the Bank has an appropriate succession plan for executive and senior management positions.

  The committee meets as required.

Executive Committees

Executive management has primary responsibility for the operation of the Bank's internal financial control framework. It monitors credit risk, market risk, liquidity risk and operational risk by means of relevant committees as described below. The Bank's policy on risk management is set out on the following page.

- Divisional management boards

  Chaired by the executive directors, the management boards are responsible for the formulation and execution of the Bank strategy, and the day-to-day management of the Bank, subject to specific limitations and constraints imposed by the Board. The management boards meet monthly.

Directors’ report *(continued)*

Executive Committees *(continued)*

The Bank management board is also responsible for formulating the IT strategy and policy and monitors and authorises IT activities throughout the Bank.

- Group risk committee

  Chaired by the Managing Director, the committee meets quarterly and monitors the Bank’s risk management framework and it co-ordinates and monitors the activities of compliance, risk and internal audit throughout the Bank.

- Assets and liabilities committee

  Chaired by the Managing Director, the committee implements the policies of the Board with respect to liquidity and interest rate risk management and provides recommendations to the Board on strategies for managing these risks. It also monitors and controls treasury counterparty risk arising from deposits with other banks and institutions which are usually unsecured together with debt securities acquired as investments. The committee meets weekly.

- Credit committee

  Chaired by the Managing Director, the committee's principal responsibility is to monitor and control counterparty risk throughout the Bank. The primary credit risk arises mainly from exposures to customers, whether individuals or corporate entities, to whom money has been lent or on whose behalf guarantees have been issued and which would generally be secured.

  The committee meets when required, to approve and monitor individual risks, including the level and type of security required, and to set and monitor acceptable concentrations of risk. All individual risks are reviewed at least annually and more frequently if closer monitoring is required.

Risk Management

The Bank regards the monitoring and controlling of risk as a fundamental part of the management process and accordingly involves its most senior people in developing risk policy and in monitoring its application. The Board has agreed a risk management policy and developed a risk management framework.

In the normal course of its business, the Bank is exposed to credit risk, liquidity risk, house price risk, interest rate risk and operational risk.

Credit risk is the risk that a counterparty will be unable or unwilling to meet a commitment that it has entered into with the Bank. The Bank manages its credit risk through the management board, assets and liabilities committee and credit committee. Regular credit exposure reports are produced which include information on large exposures, asset concentrations, industry exposure and levels of bad debt provisioning.

Liquidity risk is the risk that the Bank will encounter difficulty in realising assets or otherwise raising funds to meet commitments when they fall due. The Bank manages its liquidity risk through its assets and liabilities committee, and monitors its liquidity position on a daily basis and has adopted a policy to ensure that it has adequate resources to enable it to conduct its normal business activities without interruption. The maturity analysis of assets and liabilities is disclosed in the respective notes to the Bank’s balance sheet.

The customer deposit base represents a stable source of funding due to the number and diversity of depositors. Liquidity is further managed through dealings in the money markets. As at 31 October 2010 the Bank had no deposits or money market liabilities due to mature in more than five years.

House price risk is the risk that arises when there is an adverse mismatch between actual house prices and those implicit in the costing of the Bank’s equity release products, such that the ultimate realisation of the property would not yield the expected return to the Bank and could, in certain circumstances, result in a capital loss.

Directors' report *(continued)*

Risk Management *(continued)*

Interest rate risk is the risk that arises when there is an imbalance between the maturity dates of rate sensitive assets, liabilities and off-balance sheet items. The Bank manages its interest rate risk through its assets and liabilities committee. The Bank's policy is to maintain interest rate risk at a controlled level within limits set by the Board.

The table in note 23 shows an estimate of the interest rate sensitivity gap as at 31 October 2010. Assets and liabilities are included in the table at the earliest date at which the applicable interest rate can change.

The Bank enters into derivative transactions, normally interest rate swaps. The purpose of such transactions is to manage the interest rate and other risks arising from the Bank's operations and other resultant positions. The Bank's interest rate risk management policy defines the type of derivative transactions that can be undertaken. Further information is given in note 23 to the accounts.

Operational risk is the risk of economic loss from control failures or external events, which result in unexpected or indirect loss to the Bank.

The evaluation of the various risks and the setting of policy is carried out through the Bank's management board which acts as the conduit through which adherence to the Bank's risk management policy and framework is monitored.

The management board and credit committee covers credit risk, and the assets and liabilities committee covers credit risk for treasury counterparties and liquidity and market risk. Operational risks in each business unit are the responsibility of a named director reporting to the management board or one of its sub-committees. Strategic risk is monitored through the Board.

Going concern

The Bank has considerable financial resources and as a consequence, the directors believe that the Bank is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

Auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the Board

Rhian Yates
Secretary

31 Windsor Place
Cardiff
CF10 3UR

23 December 2010

Statement of directors’ responsibilities in respect of the Directors’ report and the financial statements

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG Audit Plc
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX
United Kingdom

Independent auditors' report to the members of Julian Hodge Bank Limited

We have audited the financial statements of Julian Hodge Bank Limited for the year ended 31 October 2010 set out on pages 12 to 35. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP**.**

Opinion on financial statements

In our opinion the financial statements:

• give a true and fair view of the state of the Bank's affairs as at 31 October 2010 and of its profit for the year then ended;
• have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Julian Hodge Bank Limited
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
• the financial statements are not in agreement with the accounting records and returns; or
• certain disclosures of directors' remuneration specified by law are not made; or
• we have not received all the information and explanations we require for our audit.

Paul Furneaux (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX
United Kingdom

23 December 2010

Profit and loss account
for the year ended 31 October 2010

	Note	**2010**	2009
		£000	£000
Interest receivable			
Interest receivable and similar income arising from treasury bills and debt securities		**3,826**	3,040
Other interest receivable and similar income		**29,657**	29,607
		33,483	32,647
Interest payable	*5*	**(31,049)**	(25,259)
Net interest income		**2,434**	7,388
Dividend income from listed equity shares and subsidiary companies		**84**	400
Fees and commissions receivable		**1,586**	2,608
Fees and commissions payable		**(366)**	(990)
Other finance income	*6*	**100**	200
Other operating income:			
Rents receivable		**840**	543
Profit on sale of reversionary interests		**2,099**	899
Profit on sale of mortgage assets		**10,122**	1,131
(Loss) on sale of stock and work in progress		**(757)**	-
(Loss)/profit on sale of debt securities		**(67)**	810
Net operating income		**16,075**	12,989
Administrative expenses:			
Staff costs	*4*	**(3,776)**	(3,812)
Other administrative expenses		**(1,955)**	(3,649)
Depreciation and amortisation	*15*	**(29)**	(161)
Movement on provisions for bad and doubtful debts	*11*	**(8,178)**	(4,205)
Operating profit being profit on ordinary activities before taxation	*3*	**2,137**	1,162
Tax on profit on ordinary activities	*7*	**(796)**	(444)
Profit on ordinary activities after taxation being profit for the financial year		**1,341**	718

The results for the year ended 31 October 2010 relate entirely to continuing operations. There is no difference between the profit for the year and the profit on a historical cost basis.

The notes on pages 15 to 35 form part of these financial statements.

Statement of total recognised gains and losses
for the year ended 31 October 2010

	Note	**2010**	2009
		£000	£000
Profit for the financial year		**1,341**	718
Actuarial gain/(loss) recognised in pension scheme, net of deferred tax	*25*	**700**	(2,800)
Total recognised gains/(losses) since last annual report		**2,041**	(2,082)

Balance sheet
at 31 October 2010

	Note	2010 £000	2009 £000
Assets			
Treasury bills	*8*	**42,454**	17,897
Loans and advances to banks	*9*	**188,474**	91,833
Loans and advances to customers	*10 & 11*	**398,412**	470,227
		629,340	579,957
Shares in group undertakings and participating interests	*12*	**16,070**	16,070
Equity shares	*13*	**379**	379
Debt securities	*14*	**54,168**	31,608
Tangible fixed assets	*15*	**43**	59
Investment properties	*16*	**10,319**	10,319
Reversionary interests in properties	*17*	**63,292**	57,286
Other assets	*19*	**47,497**	38,779
Corporation tax		**424**	180
Prepayments and accrued income		**3,745**	3,404
Total assets		**825,277**	738,041
Liabilities			
Deposits by banks – repayable on demand		**536**	-
Customer accounts	*18*	**696,171**	610,540
Other liabilities:			
Other		**183**	1,069
Accruals and deferred income		**4,146**	3,432
Pension deficit	*25*	**100**	900
Total liabilities		**701,136**	615,941
Share capital and reserves			
Called-up share capital	*20*	**100,000**	100,000
Profit and loss account	*21*	**24,141**	22,100
Shareholder's funds	*21*	**124,141**	122,100
Total liabilities and shareholder's funds		**825,277**	738,041
Memorandum items			
Contingent liabilities	*22*	**82**	362
Commitments	*22*	**142,335**	190,138

These financial statements were approved by the Board of directors on 23 December 2010 and were signed on its behalf by:

David Austin
Director

David James
Director

Notes
(forming part of the financial statements)

1 Accounting policies

Basis of preparation

Except as noted below, the financial statements have been prepared in accordance with the provisions of section 396 of the Companies Act 2006, including applying the requirements set out in Schedule 2 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to banks. The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules as modified to include the revaluation of certain assets and investments and comply with the revised Statements of Recommended Practice (SORPs) issued by the British Bankers' Association (BBA).

Under FRS1 the Bank is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Bank in its own published consolidated financial statements.

The Bank is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Bank as an individual undertaking and not about its group.

The directors confirm that they are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in the preparation of the financial statements.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Shares in group undertakings and participating interests

Investments in subsidiary undertakings and participating interests are stated at cost less provision for impairment in value.

Treasury bills

Treasury bills intended for use on a continuing basis in the Bank's activities are classified as treasury bills and are stated at cost adjusted for any amortisation of premiums and discounts arising on acquisition and less provision for any permanent diminution in value.

Where dated treasury bills have been purchased at a premium or discount, the premiums and discounts are amortised through the profit and loss account from the date of purchase to the date of maturity on a straight line basis.

Equity shares

All equity shares are considered to be financial fixed assets and are included in the balance sheet at cost less provision for any impairment. Income from equity shares is credited to the profit and loss account on the ex-dividend date.

Debt securities

Debt securities intended for use on a continuing basis in the Bank's activities are classified as debt securities and are stated at cost adjusted for any amortisation of premiums and discounts arising on acquisition and less provision for any permanent diminution in value.

Where dated debt securities have been purchased at a premium or discount, the premiums and discounts are amortised through the profit and loss account from the date of purchase to the date of maturity on a straight line basis.

Notes *(continued)*

1 Accounting policies *(continued)*

Loans and advances

Loans and advances are held at cost less provisions. Provisions against loans and advances to customers are calculated by reference to the record of payments received and, where appropriate, the security held or the value of goods to which the agreements relate. Specific provisions have been made against amounts which are considered irrecoverable in respect of all identified impaired advances. General provisions have been made in respect of losses inherent in the portfolio at a fixed percentage of gross debtors excluding unearned interest. If the collection of interest is considered doubtful, it is suspended and excluded from interest income in the profit and loss account. Loans and advances are written off to the extent that there is no longer any realistic prospect of recovery.

Fees and commissions receivable

Fees and commissions receivable for services provided are recognised when earned. Fees and commissions which increase the yield on transactions are spread over the lives of the underlying transactions on a systematic basis.

Off balance sheet instruments

The Bank's policy is to hedge against mismatches when it is appropriate or prudent to do so by the use of interest rate swaps and caps. The related income/costs are matched in the profit and loss account against those relating to the items they are used to hedge.

Tangible fixed assets and depreciation

Depreciation in respect of tangible fixed assets is provided to write off the cost on a straight line basis over estimated useful lives as follows:

Fixtures, fittings and equipment	-	5 years
Short leasehold improvements	-	term of lease

Investment properties

Design and construction management expenses together with interest incurred in respect of investment properties in the course of development are capitalised until the building is effectively completed and available for letting. Thereafter they are charged to the profit and loss account.

In accordance with SSAP 19:

- investment properties are revalued annually and surpluses or deficits are transferred to a revaluation reserve unless a deficit on an individual property is considered permanent. In this case the deficit is charged to the profit and loss account and any subsequent reversal is credited to the profit and loss account in the period in which it arises; and
- no depreciation is provided in respect of freehold investment properties.

This treatment, as regards certain of the Bank's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. Depreciation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

The investment properties are formally valued approximately every 3 years by professional valuers, and desktop valuations are used in the intervening years.

Notes *(continued)*

1 **Accounting policies** *(continued)*

Reversionary interests in properties

Reversionary interests in properties are included in the financial statements at cost, being the amount of the cash advanced to the customer together with related acquisition costs. The cash advance reflects the then current market value of the property, as reduced by the impairment to market value arising from the existence of a lease for life for the customer.

The provision for impairment and the current market value of the properties are reviewed on an annual basis. Any deficit below the initial advance is provided for in the profit and loss account. The profit on sale of reversionary interests is calculated as the difference between the net sale proceeds and cost, less any impairment.

Stock

The Bank's stocks comprise land and work in progress. These are included within other assets and are stated at the lower of cost and net realisable value.

Net realisable value means estimated selling price less all further costs to completion and all costs to be incurred in marketing, selling and distribution.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Related party disclosures

As the Bank is a wholly owned subsidiary of The Carlyle Trust Ltd it has taken advantage of the exemption under FRS 8 from the requirement to disclose transactions and balances with related parties which are part of the same group or investees in that group.

Pension scheme

The Bank and its subsidiary undertakings are members of The Carlyle (1972) Pension and Life Assurance Scheme, a defined benefits scheme operated by The Carlyle Trust Limited. The assets of the scheme are held separately from those of the Bank.

In respect of the above scheme, the pension costs charged against profits are based on an actuarial method and actuarial assumptions designed to provide the anticipated pension costs over the service lives of the employees and directors in the scheme, in a way that seeks to ensure that the regular pension cost represents a substantially level percentage of the current and expected future pensionable payroll in the light of current actuarial assumptions. Variations from regular costs are spread over the remaining service lives of current employees in the scheme.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Notes *(continued)*

1 Accounting policies *(continued)*

Pension scheme (continued)

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/(deficit) is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The Bank also operates a money purchase scheme provided through an insurance company. The Bank makes a contribution of 10% of pensionable salary to this scheme and this is charged to profits on the same basis as the relevant salary cost.

2 Segmental information

All material activities are in respect of banking and are carried on within the United Kingdom.

3 Profit on ordinary activities before taxation

	2010	2009
	£000	£000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Remuneration of the auditor and its associates		
Audit of these financial statements	**33**	33
Audit of financial statements of subsidiaries pursuant to legislation	**25**	25
Other services relating to taxation	**24**	15
Pension scheme audit	**8**	8
Depreciation	**29**	161
Profit on disposal of fixed assets	**-**	(31)
Bad debt provision	**8,178**	4,205
Hire of plant and machinery under operating leases	**46**	50

Notes *(continued)*

4 Directors and employees

	2010	2009
	£000	£000
Staff costs		
Wages and salaries	**3,205**	3,270
Social security	**281**	288
Pension costs (note 25)	**290**	254
	3,776	3,812

The average number of employees of the Bank during the year was as follows:

	2010	2009
	No	No
Provision of finance and banking	**51**	59
Property, investment and other	**26**	36
	77	95

Staff costs include remuneration in respect of directors as follows:

	2010	2009
	£000	£000
Fees	**141**	130
Aggregate emoluments as executives	**281**	281
	422	411

The emoluments of the highest paid director, excluding pension contributions, were as follows:

Aggregate emoluments	**164**	164

The highest paid director is a member of a defined benefit scheme under which his accrued pension at the year end was £39,000 *(2009: £35,000).*

Retirement benefits are accruing to 3 *(2009: 3)* directors in a defined benefit scheme.

5 Interest payable

	2010	2009
	£000	£000
On deposits by banks	**7,848**	777
On customer accounts	**23,198**	24,412
On amounts owed to parent and fellow subsidiary undertakings	**3**	70
	31,049	25,259

Notes *(continued)*

6 Other finance income

	2010	2009
	£000	£000
Expected return on pension scheme assets	**1,200**	1,100
Interest on pension scheme liabilities	**(1,100)**	(900)
Net finance income	**100**	200

7 Tax on profit on ordinary activities

Analysis of charge in year

	2010		2009	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the year		**(224)**		410
Adjustments in respect of prior years		**15**		(26)
Total current tax		**(209)**		384
Deferred tax (see note 19)				
Origination/reversal of timing differences	**950**		(456)	
Adjustment in respect of prior years	**55**		516	
		1,005		60
Tax on profit on ordinary activities		**796**		444

The current tax charge for the year is lower (*2009: higher)* than the standard rate of corporation tax in the UK. The differences are explained below.

	2010	2009
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**2,137**	1,162
Current tax at 28% *(2009: 28%)*	**598**	325
Effects of:		
Expenses not deductible for tax purposes	**39**	457
Capital allowances for the year less than/(in excess of) depreciation	**55**	(7)
Release of provisions not deductible until paid	**(864)**	(197)
Franked investment income/intra-group dividends	**(24)**	(112)
Adjustments in respect of prior years	**15**	(26)
FRS17 pension scheme adjustment	**(28)**	(56)
Total current tax (credit)/charge (see above)	**(209)**	384

Notes *(continued)*

8 Treasury bills

	2010	2009
	£000	£000
Listed on a UK recognised investment exchange	**42,454**	17,897

Maturity analysis	**2010**	2009
	£000	£000
More than one year but less than five years	**11,234**	2,939
Five years and over	**31,220**	14,958
	42,454	17,897

	Nominal value	**Net premium/(discount)**	**Net book value**
	£000	**£000**	**£000**
Movement			
At beginning of year	18,130	(233)	17,897
Additions	23,346	1,398	24,744
Amortisation of premium	-	(187)	(187)
At end of year	**41,476**	**978**	**42,454**

Market value	**2010**	2009
	£000	£000
Listed on a UK recognised investment exchange	**45,442**	19,068

9 Loans and advances to banks

	2010	2009
	£000	£000
Repayable		
On demand	**130,026**	66,439
Within three months	**58,448**	20,366
Between three months and one year	**-**	5,028
	188,474	91,833

Notes *(continued)*

10 Loans and advances to customers

	2010 £000	2009 £000
Loans and advances	**397,937**	469,967
Amounts owed by immediate parent and fellow subsidiary undertakings	**336**	197
Amounts owed by subsidiary undertakings	**139**	63
	398,412	470,227

Amounts owed by immediate parent, fellow subsidiary and subsidiary undertakings have no fixed term for repayment.

Loans and advances to customers other than immediate parent, fellow subsidiary and subsidiary undertakings are repayable as follows:

	2010 £000	2009 £000
Within three months	**68,260**	82,094
Between three months and one year	**57,689**	48,609
Between one and five years	**22,134**	98,753
Over five years	**274,797**	258,112
General and specific bad debt provisions	**(24,943)**	(17,601)
	397,937	469,967
Of which repayable on demand or at short notice	**31,177**	28,150

Notes *(continued)*

11 Provisions for bad and doubtful debts

2010

	Total £000	**Specific £000**	**General £000**
At 1 November 2009	**17,601**	**6,420**	**11,181**
Charge against profits	**8,178**	**11,816**	**(3,638)**
Amounts written off	**(839)**	**(839)**	**-**
Recoveries	**3**	**3**	**-**
At 31 October 2010	**24,943**	**17,400**	**7,543**

2009

	Total £000	Specific £000	General £000
At 1 November 2008	15,886	4,000	11,886
Charge against profits	4,205	4,910	(705)
Amounts written off	(2,494)	(2,494)	-
Recoveries	4	4	-
At 31 October 2009	17,601	6,420	11,181

In certain cases, interest may be charged to a customer's account but, because its recoverability is in doubt, it is not recognised in the Bank's profit and loss account and is, therefore, held in a suspense account, which is fully provided for.

	2010 £000	2009 £000
Loans and advances for which interest is being placed in suspense:		
Loans and advances before specific provisions	**42,735**	18,869
Loans and advances after specific provisions	**24,196**	16,174

Notes *(continued)*

12 Shares in group undertakings and participating interests

	Investments in subsidiary undertakings £000
Cost and net book value	
At beginning of year	16,070
Additions	-
At end of year	**16,070**

The Bank's principal subsidiary undertaking is as follows:

	Country of Incorporation	Principal Activity	Class and Percentage of shares held
Subsidiary undertaking			
Hodge Life Assurance Company Limited	United Kingdom	Life Assurance	100%

13 Equity shares

	£000
Cost and net book value	
At beginning of year	379
Acquisitions	-
At end of year	**379**

At 31 October 2010 all listed investments are considered by the directors to be financial fixed assets as they are not held for the purposes of dealing.

The aggregate market value of the Bank's listed investments, which are listed on recognised UK investment exchanges, at 31 October 2010 was £5,162,000 (*2009: £4,282,000).* If these were realised at their market value on 31 October 2009 an additional tax charge of £1,339,000 *(2009: £1,095,000)* would have arisen.

Notes *(continued)*

14 Debt securities

Debt securities	**2010**	2009
	£000	£000
Debt securities – listed on a UK recognised investment exchange	**54,168**	31,608

Debt securities – maturity analysis	**2010**	2009
	£000	£000
More than one year but less than five years	**24,165**	4,675
Five years and over	**30,003**	26,933
	54,168	31,608

	Nominal value	**Net premium/(discount)**	**Net book value**
	£000	**£000**	**£000**
Debt securities – movement			
At beginning of year	32,083	(475)	31,608
Additions	30,969	(484)	30,485
Disposals	(8,068)	6	(8,062)
Amortisation of premium	-	137	137
At end of year	**54,984**	**(816)**	**54,168**

Debt securities – market value	**2010**	2009
	£000	£000
Debt securities – listed on UK recognised investment exchanges	**57,990**	32,147

Disposals of debt securities held in financial institutions totalling £7,568,000, occurred as a result of changes in the regulatory environment during the year. The disposals created a loss of £59,000.

Notes *(continued)*

15 Tangible fixed assets

	Total £000	Short leasehold improvements £000	Fixtures, fittings and equipment £000
Cost			
At 1 November 2009	904	69	835
Additions	13	-	13
Disposals	(43)	(4)	(39)
At 31 October 2010	**874**	**65**	**809**
Depreciation			
At 1 November 2009	845	44	801
Provided in the year	29	13	16
Disposals	(43)	(4)	(39)
At 31 October 2010	**831**	**53**	**778**
Net book value			
At 31 October 2010	**43**	**12**	**31**
At 31 October 2009	59	25	34

16 Investment properties

Freehold	**£000**
At 1 November 2009	10,319
Additions	-
At 31 October 2010	**10,319**
The historical cost of investment properties was:	
At 31 October 2010	**10,319**
At 1 November 2009	10,319

A desktop market valuation was undertaken by Savills as at 31 October 2010.

17 Reversionary interests in properties

The estimated market value of the Bank's reversionary interests in properties is £76,584,461 (*2009: £68,846,000).* If these were realised at their market value on 31 October 2010 an additional tax charge of £3,721,889 *(2009: £3,327,000)* would have arisen.

Notes *(continued)*

18 Customer accounts

	2010	2009
	£000	£000
Repayable on demand	**22,219**	14,651
With agreed maturity dates or periods of notice and repayable:		
- within three months	**274,503**	197,449
- between three months and one year	**253,016**	305,253
- between one and five years	**144,037**	92,792
Amounts owed to parent and fellow subsidiary undertakings	**2,394**	392
Amounts owed to subsidiary undertakings	**2**	3
	696,171	610,540

Amounts owed to parent and fellow subsidiary undertakings and amounts owed to subsidiary undertakings have no fixed terms for repayment.

19 Other assets

	2010	2009
	£000	£000
Stock of land and work in progress	**12,025**	19,799
Other debtors	**32,998**	15,501
Deferred tax assets (see below)	**2,474**	3,479
	47,497	38,779

The deferred taxation asset is calculated at 27% *(2009: 28%)* as follows:

	2010	2009
	£000	£000
Accelerated capital allowances	**160**	162
Other timing differences	**2,314**	3,317
	2,474	3,479

The unprovided deferred tax asset is £nil (*2009: £nil*).

20 Called up share capital

	2010	2009
	£000	£000
Authorised, allotted, called-up and fully paid:		
100,000,000 *(2009: 100,000,000)* ordinary shares of £1 each	**100,000**	100,000

Notes *(continued)*

21 Capital and reserves – reconciliation of movements in shareholders' funds

	Called up share capital £000	**Profit and loss account £000**	**Total £000**
Year ended 31 October 2010			
At beginning of year	**100,000**	**22,100**	**122,100**
Profit for the financial year	**-**	**1,341**	**1,341**
Actuarial gain recognised	**-**	**700**	**700**
At end of year	**100,000**	**24,141**	**124,141**

	Called up share capital £000	Profit and loss account £000	Total £000
Year ended 31 October 2009			
At beginning of year	100,000	24,182	124,182
Profit for the financial year	-	718	718
Actuarial loss recognised	-	(2,800)	(2,800)
At end of year	100,000	22,100	122,100

22 Memorandum items and interest rate contracts

	2010 £000	2009 £000
Contingent liabilities		
Other contingent liabilities	**82**	362
Commitments		
Undrawn credit lines, stand-by facilities, other lending commitments and capital commitments expiring in less than one year	**142,335**	190,138
Interest rate contracts (principal amount)		
Hedging	**428,896**	467,797

Notes *(continued)*

23 Financial instruments

Objectives and policies

The Bank's objectives and policies on the use of financial instruments, including derivatives, are set out in the Directors' report.

Interest rate risk

2010	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000
Assets							
Treasury bills	-	-	-	11,748	30,706	-	42,454
Loans and advances to banks	188,474	-	-	-	-	-	188,474
Loans and advances to Customers	188,317	5,670	1,222	23,604	204,067	(24,468)	398,412
Shares in group undertakings	-	-	-	-	-	16,070	16,070
Investments	-	-	-	-	-	379	379
Debt securities	8,911	3,067	-	12,672	29,518	-	54,168
Investment properties	-	-	-	-	-	10,319	10,319
Reversionary interests in properties	-	28	113	1,308	61,843	-	63,292
Other assets	32,197	-	-	-	-	15,300	47,497
Non-financial assets	-	-	-	-	-	4,212	4,212
Total assets	**417,899**	**8,765**	**1,335**	**49,332**	**326,134**	**21,812**	**825,277**
Liabilities							
Deposits by banks	536	-	-	-	-	-	536
Customer accounts	293,419	146,005	109,957	140,392	-	6,398	696,171
Other liabilities	-	-	-	-	-	183	183
Non-financial liabilities	-	-	-	-	-	4,246	4,246
Shareholder's funds	-	-	-	-	-	124,141	124,141
Total liabilities	**293,955**	**146,005**	**109,957**	**140,392**	**-**	**134,968**	**825,277**
Off balance sheet items	132,504	143,892	26,000	(20,557)	(281,839)	-	-
Interest rate sensitivity gap	256,448	6,652	(82,622)	(111,617)	44,295		
Cumulative gap	**256,448**	**263,100**	**180,478**	**68,861**	**113,156**		

Notes *(continued)*

23 Financial instruments *(continued)*

2009	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000
Assets							
Treasury bills	-	-	-	2,939	14,958	-	17,897
Loans and advances to banks	86,805	-	5,028	-	-	-	91,833
Loans and advances to customers	209,790	1,424	970	25,573	249,812	(17,342)	470,227
Shares in group undertakings	-	-	-	-	-	16,070	16,070
Investments	-	-	-	-	-	379	379
Debt securities	-	-	-	4,675	26,933	-	31,608
Investment properties	-	-	-	-	-	10,319	10,319
Reversionary interests in properties	-	28	113	1,377	55,768	-	57,286
Other assets	15,452	-	-	-	-	23,327	38,779
Non-financial assets	-	-	-	-	-	3,643	3,643
Total assets	**312,047**	**1,452**	**6,111**	**34,564**	**347,471**	**36,396**	**738,041**
Liabilities							
Customer accounts	212,333	145,643	159,377	92,792	-	395	610,540
Other liabilities	-	-	-	-	-	1,069	1,069
Non-financial liabilities	-	-	-	-	-	4,332	4,332
Shareholder's funds	-	-	-	-	-	122,100	122,100
Total liabilities	**212,333**	**145,643**	**159,377**	**92,792**	**-**	**127,896**	**738,041**
Off balance sheet items	46,500	129,283	60,500	52,500	(288,783)	-	-
Interest rate sensitivity gap	146,214	(14,908)	(92,766)	(5,728)	58,688		
Cumulative gap	**146,214**	**131,306**	**38,540**	**32,812**	**91,500**		

The tables above summarise the re-pricing mismatches on the Bank's balance sheet as at 31 October 2010 and 31 October 2009. Items are allocated to time-bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

A negative interest rate sensitivity gap exists when more liabilities than assets re-price during a given period. Although a negative gap position tends to benefit net interest income in a declining interest rate environment, the actual effect will depend on a number of factors including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within re-pricing periods.

Fair values

The following table provides a comparison by category of the carrying amount and the fair values of the Bank's financial assets. The fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale.

Notes *(continued)*

23 Financial instruments *(continued)*

Fair values *(continued)*

	Book value		Fair value	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Financial assets				
Treasury bills	**42,454**	17,897	**45,442**	19,068
Listed investments	**379**	379	**5,162**	4,282
Debt securities	**54,168**	31,608	**57,990**	32,147
Interest rate swaps	**(2,223)**	(1,298)	**(36,353)**	(13,006)

The Bank holds no other financial asset or liability for which a liquid and active market exists, either for the instrument itself or for its component parts. None of the Bank's financial assets or liabilities are part of a trading book.

The methods and assumptions used for determining the fair value of each category of financial instrument are:

(i) Under the Bank's accounting policy, equity shares are included in the balance sheet at their original cost. Consequently the fair value equates to the market value of these shares at the balance sheet date.

(ii) Under the Bank's accounting policy, treasury bills and debt securities are included in the balance sheet at their original cost. Consequently the fair value equates to the market value of these securities at the balance sheet date.

(iii) The fair value of derivative instruments is calculated by discounting all future cashflows based upon the Bank's cost of money rate.

Hedges

As stated in its accounting policy the Bank's policy is to hedge against mismatches when it is appropriate or prudent to do so. The table below shows the amount of gains and losses that have been included in the profit and loss account for the current year.

	2010	2009
	£000	£000
Gains	**2,117**	3,633
Losses	**(9,985)**	(3,553)
Net (losses)/gains to 31 October	**(7,868)**	80

Hedging losses with a value of £37,828,000 have not been recognised in the financial statements at 31 October 2010 *(2009: £17,145,000)*.

Foreign currencies

The Group holds no financial assets or liabilities denominated in foreign currencies.

24 Capital commitments

The Bank had contracted commitments amounting to £1,316,000 at 31 October 2010 *(2009: £4,893,000)*.

Notes *(continued)*

25 Pension schemes

The Carlyle Trust Group operates a defined benefits pension scheme for certain directors and employees, The Carlyle (1972) Pension and Life Assurance Scheme.

The assets of the scheme are administered by Trustees and are held in a fund that is separate and independent of other Bank funds. The fund assets are currently invested in a managed fund. The scheme was established with effect from 1972, is fully approved under Chapter I Part XIV of the Income and Corporation Taxes Act 1988, and is contracted-out of the State Earnings Related Pension Scheme.

Pension costs are assessed in accordance with the advice of a qualified, independent actuary using the projected unit method. The assumptions which have the most significant effect on the calculation are the long term average investment return expected in future and the rate of future increases to benefits, both before and after retirement.

The benefit basis changed to a career average revalued earnings ("CARE") basis, from a final salary basis, with effect from 1 April 2005.

The most recent actuarial report of the scheme, as at 1 April 2007, showed that the value of the assets was £17,779,000. This represented 124% of the CARE benefits that had accrued to members after allowing for expected future increases to benefits. Future investment returns of 6.45% per annum up to retirement and 5.20% in retirement and future benefit increases of 3.20% per annum were assumed.

The Bank's total expense for the year, including its share of prior service savings, amounted to £290,000 *(2009: £254,000)*. The effects of the 2007 valuation assumptions and the benefit review has resulted in no change to the employer's contribution rate of 13.0% *(2009: 13.0%)*.

The Bank also offers a money purchase scheme, though it currently has no active members, provided through an insurance company. The Bank's commitment is limited to the obligation to make a contribution of 10% of pensionable salary to the scheme, with an additional 5% being paid by the employee. As at the year end £nil *(2009: £nil)* was payable to the fund in respect of contributions to the scheme.

The FRS 17 valuation as at 31 October 2010 has been produced by a qualified independent actuary, and is based on the preliminary results of the draft valuation as at 1 April 2010.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	2010 **£m**	2009 £m
Fair value of plan assets	**19.9**	17.4
Present value of funded defined benefit obligations	**(20.1)**	(18.5)
Deficit	**(0.2)**	(1.1)
Related deferred tax asset	**0.1**	0.2
Net deficit	**(0.1)**	(0.9)

Notes *(continued)*

25 Pension schemes *(continued)*

Movements in present value of defined benefit obligation

	2010 £m	2009 £m
Present value of scheme liabilities at start of the period	**18.5**	11.6
Interest cost	**1.1**	0.9
Current service cost	**0.3**	0.2
Member contributions	**0.1**	0.1
Actuarial loss	**0.7**	6.0
Benefits paid	**(0.6)**	(0.3)
Present value of scheme liabilities at end of the period	**20.1**	18.5

Movements in fair value of plan assets

	2010 £m	2009 £m
Market value of assets at the beginning of the year	**17.4**	14.0
Expected return on scheme assets	**1.2**	1.1
Actuarial gain	**1.5**	2.2
Member contributions	**0.1**	0.1
Employer contributions	**0.3**	0.3
Benefits paid	**(0.6)**	(0.3)
Market value of assets at the end of the year	**19.9**	17.4

Expense recognised in the profit and loss account

	2010 £m	2009 £m
Current service cost	**(0.3)**	(0.3)
Interest cost	**(1.1)**	(0.9)
Expected return on scheme assets	**1.2**	1.1
Total	**(0.2)**	(0.1)

The expense is recognised in the following line items in the profit and loss account:

	2010 £m	2009 £m
Other finance income	**0.1**	0.2
Staff costs	**(0.3)**	(0.3)
Total	**(0.2)**	(0.1)

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains is £0.8m *(2009: loss of £3.7m)* before tax.

Notes *(continued)*

25 Pension schemes *(continued)*

Cumulative actuarial gains/ (losses) reported in the statement of total recognised gains and losses for accounting periods ended on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are losses of £3.0m *(2009: losses of £3.8m)* before tax.

The fair value of the plan assets and the return on those assets was as follows:

	Fair value 2010 £m	**Long term rate of return 2010**	Fair value 2009 £m	Long term rate of return 2009
Global absolute returns fund	**5.3**	**7.5%**	-	
Equities	**10.7**	**7.5%**	12.9	8.0%
Bonds	**2.6**	**4.0%**	3.1	4.5%
Property	**0.1**	**6.5%**	0.1	7.0%
Other – cash	**1.2**	**3.5%**	1.3	4.0%
Total market value of assets	**19.9**		17.4	

The major assumptions used in this valuation were:

	2010	2009
Rate of increase in salaries	**4.30%**	4.40%
Rate of increase in LPI pensions in payment and deferred pensions	**3.20%**	3.30%
Rate of CARE revaluation	**3.20%**	3.30%
Discount rate applied to scheme liabilities	**5.30%**	5.80%
Inflation assumption	**3.30%**	3.40%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity as follows:

Post retirement mortality (life expectancy)	**2010**	2009
Current pensioners age 65 - male	**89.1**	87.0
Current pensioners age 65 - female	**92.4**	89.9
Future pensioners age 65 (current age 45) - males	**91.1**	88.1
Future pensioners age 65 (current age 45) - females	**94.5**	90.9

History of plan balance sheets

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of plan assets	**19.9**	17.4	14.0	19.8	16.1
Present value of funded defined benefit obligations	**(20.1)**	(18.5)	(11.6)	(15.8)	(15.4)
(Deficit)/surplus	**(0.2)**	(1.1)	2.4	4.0	0.7
Related deferred tax asset/(liability)	**0.1**	0.2	(0.7)	(1.2)	(0.2)
Net (deficit)/surplus	**(0.1)**	(0.9)	1.7	2.8	0.5

Notes *(continued)*

25 Pension schemes *(continued)*

History of experience gains and losses

	2010	2009	2008	2007	2006
Difference between the expected and actual return on scheme assets:					
Amount	**£1.5m**	£2.2m	£(7.3)m	£1.7m	£1.3m
Percentage of year end scheme assets	**7.5%**	12.6%	52.0%	9.0%	8.1%
Experience gains and losses on scheme liabilities:					
Amount	**£0.6m**	£0.0m	£0.0m	£1.7m	£0.0m
Percentage of year end present value of scheme liabilities	**3.0%**	0.0%	0.0%	11.0%	0.0%
Total amount recognised in statement of total recognised gains and losses:					
Gains/(losses) before tax	**£0.8m**	£(3.7)m	£(2.1)m	£2.9m	£0.5m
Percentage of year end present value of scheme liabilities	**4.0%**	20.0%	18.0%	18.0%	3.2%

The Bank expects to contribute approximately £0.3m to its defined benefit plan in the next financial year

26 Ultimate parent undertaking

The immediate parent undertaking of the Bank is The Carlyle Trust Limited, registered in England and Wales, which controls and co-ordinates the management of a group of companies. The ultimate parent undertaking and controller is Carlyle Trust (Jersey) Limited (incorporated in Jersey).Within the meaning of the Companies Act 2006, The Carlyle Trust Limited is the parent undertaking of the largest and only group of undertakings for which group accounts are drawn up and of which the Bank is a member. The accounts of The Carlyle Trust Limited can be obtained from The Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

27 FSCS Levy

The Bank is a member of the Financial Services Compensation Scheme (FSCS), and it has been advised by the Financial Services Authority (FSA) that it will be asked to contribute additional levies for the foreseeable future following the failure of a number of banks during the recent credit crunch. The final details of the additional levies are yet to be confirmed, but the Bank has accrued £200,000 in interest costs in the financial statements for the year ended 31 October 2010 *(2009: £360,000)*, and it is currently anticipated that the cost will be around £200,000 for the next financial year.